

TAX TIPS FOR

GROCERY STORES



Publication 31
September 2005

CALIFORNIA
STATE BOARD
OF EQUALIZATION

BETTY T. YEE
Acting Member
First District
San Francisco

BILL LEONARD
Second District
Sacramento/Ontario

CLAUDE PARRISH
Third District
Long Beach

JOHN CHIANG
Fourth District
Los Angeles

STEVE WESTLY
State Controller
Sacramento

RAMON J. HIRSIG
Executive Director
Sacramento

Preface

This publication is designed for owners, managers, and other operators of grocery stores and provides basic information on the application of the California Sales and Use Tax Law to grocery store sales and purchases.

For purposes of this publication, a grocery store is an establishment having as its principal line of business the sale of food products and related items. The term includes separate grocery departments in department stores but does not include delicatessens, country or general stores, and establishments that handle groceries as a sideline.

If you cannot find the information you are looking for in this booklet, please call our Information Center and speak to a representative or use the automated information services (see page 26).

This pamphlet complements publication 73, *Your California Seller's Permit*, which includes general information about obtaining a permit; using a resale certificate; collecting and reporting sales and use taxes; buying, selling, or discontinuing a business; and keeping records. To request a copy, please see page 26.

We welcome your suggestions for improving this or any other tax tip publication. Please send your suggestions to:

Audit and Information Section
Board of Equalization
450 N Street MIC:44
P.O. Box 942879
Sacramento, CA 94279-0044

Note: This publication summarizes the law and applicable regulations in effect when the publication was written, as noted on the cover. However, changes in the law or in regulations may have occurred since that time. If there is a conflict between the text in this publication and the law, the law is controlling.

To contact your Board Member, see www.boe.ca.gov/member/board.htm.

Table of Contents

1. General Application of Tax	1
Examples of taxable and nontaxable sales	1
Food product sales	2
Exempt food products	2
Gift baskets and other packages	2
Nonedible cake decorations	3
Dietary supplements	4
Herbal products	4
Hot prepared food products	5
To-go sales of meal packages	5
Food service operations	5
Miscellaneous charges and transactions	6
California redemption value	6
Cigarette rebates	7
Coupon redemption	8
Federal food stamps	9
Film processing	10
Lottery	10
Newspapers and periodicals	11
Point-of-sale fees	11
Prepaid telephone debit cards	11
Rentals	11
Sales of capital assets	12
Self-consumed merchandise	12
Vending machines	13
2. Reporting Tax: Special Considerations	14
Total sales	14
Methods for computing exempt food sales and taxable sales	14
Purchase-ratio method (grocer's formula)	15
Modified purchase-ratio method	18
Cost-plus-markup method—taxable merchandise	19
Retail inventory method	22
Electronic scanning systems	22

*2. Reporting Tax: Methods for computing exempt food sales and taxable sales
(continued)*

Other methods	23
Sales tax ring-up	23
Taxable sale ring-up	23
Estimates	23
Deductions	23
Losses	24
Shrinkage	24
Robbery, theft, shoplifting	24
Bad debts	24
3. For More Information	26
4. Appendix: Classification of Products Sold by Grocers	30
Reader Survey	33

1. General Application of Tax

It is important to understand the taxability of sales of food, merchandise, and other tangible personal property. Some sales will be taxable, while others will not. This chapter is designed to answer many of the questions commonly asked by grocers. If your questions are not answered, please call our Information Center for assistance, 800-400-7115.

Examples of taxable and nontaxable sales

The following examples are illustrative only and do not represent all taxable and nontaxable sales.

■ Taxable sales

Sales tax generally applies to sales of

- Over-the-counter medicines, such as aspirin, cough syrups, cough drops, throat lozenges, and so forth
- Drug sundries, toys, hardware, and household goods
- Books and publications
- Newspapers and periodicals
- Cosmetics
- Alcoholic beverages
- Carbonated soft drinks and mixes
- Carbonated and effervescent water
- Tobacco products
- Dietary supplements
- Medicated gum (Nicorette, Aspergum)
- Soaps or detergents
- Cameras and film
- Clothing
- Ice
- Sporting goods
- Nursery stock
- Pet food and supplies
- Hot prepared food products (see page 5)
- Food sold for consumption on your premises (see pages 5-6)
- Fixtures and equipment used in an activity requiring the holding of a seller's permit, if sold at retail

■ Nontaxable sales

Sales tax generally does not apply to sales of

- Food products. This includes baby food, artificial sweeteners, candy, gum, ice cream, ice cream novelties, popsicles, fruit and vegetable juices, olives, onions, and maraschino cherries. Food products also include beverages and cocktail mixes that are neither alcoholic nor carbonated. The exemption applies whether sold in liquid or frozen form.
- Water. Bottled noncarbonated, noneffervescent drinking water
- Baby formulas (including Isomil)
- Pedialyte
- Cooking wine
- Noncarbonated sports drinks (Gatorade, Powerade, All-Sport)
- Edge Bars, Energy Bars, Power Bars
- Granola Bars
- Martinelli's Sparkling Cider
- Phone cards (see page 11)

Food product sales

Although sales of food products for human consumption are generally exempt from tax, there are many sales of food products which are taxable. For example, you must report tax on sales of food products sold for consumption on your premises. Because certain sales of food products are taxable, it is important to understand when tax applies.

■ Exempt food products

Sales of food products for human consumption are generally exempt from tax. However, if an item does not qualify as a food product, or if it is not sold for human consumption, it is generally subject to tax.

For example, the following items do not qualify as food products and, as a result, are subject to tax:

- Ice
- Over-the-counter medicines
- Alcoholic beverages
- Coloring extracts
- Tobacco products
- Dietary supplements
- Carbonated beverages, including semi-frozen beverages containing carbonation, such as “Slushies” (also see note below)

Likewise, a food product sold for consumption by a dog, cat, bird and other domestic pets or for use as fish bait is subject to tax because it is not sold for human consumption.

Note: carbonated fruit juices. Carbonated products that qualify as 100 percent natural fruit juice are not subject to tax. If the fruit juice includes a preservative, such as sodium benzoate, or any other additive, it is not considered a natural fruit juice and is subject to tax.

■ Gift baskets and other packages that combine nonfood products with exempt food products

If you sell a combination package that includes exempt food products and nonfood products, the entire package is considered an exempt sale of food if

- The retail value of the food contents is at least 90 percent of the retail value of the total package contents, and
- The retail value of the package container is 50 percent or less of the retail value of the entire package

If you sell a combination that does not meet *both* of the conditions above , tax applies to the selling price of the entire package, less the value of exempt food products (see example 2 below).

Example 1

You sell a gift basket for \$60 which includes the following components:

	<i>Retail Value</i>
Fruit, cheese, crackers (exempt food products)	\$ 45.00
Small cheese knife (nonfood product)	<u>5.00</u>
<i>Total value of contents</i>	\$ 50.00
<i>Basket</i>	<u>10.00</u>
<i>Total price of combination package</i>	\$ 60.00

The \$60 package is considered an exempt sale of food products because it meets both conditions listed above. The value of the food items, \$45.00, is at least 90 percent of the \$50 total value of the contents. And the value of the container (the basket), \$10, is less than 50 percent of the retail value of the entire package.

Example 2

You sell a party tray for \$30 which includes the following components:

	<i>Retail Value</i>
Meat and cheese (exempt food products)	\$22.00
Serving utensil (nonfood product)	<u>5.00</u>
<i>Total value of contents</i>	\$ 27.00
<i>Tray</i>	<u>3.00</u>
<i>Total price of combination package</i>	\$ 30.00

In this example, the retail value of the food products is below 90 percent of the retail value of the total package contents ($\$22 \div \$27 = 81\%$). Consequently, tax applies to the selling price of the package less the retail value of the exempt food products (that is, tax applies to the retail value of the tray and serving utensil).

Note: Your records must separately state the value of the food and nonfood items, and those values should be separated on the invoice or receipt.

■ **Nonedible cake decorations**

If you sell a cake or other bakery good that includes nonedible decorations, you must report tax on the retail selling price of the decorations if they represent 50 percent or more of the total retail value of the cake or bakery item. You must

segregate the charge for the decorations from the charge for the cake or bakery item, and you must calculate the tax based on the retail value of the decorations.

Note: You may already separately state the retail value of decorations on the invoice. If you do, and the decorations are nonedible, you must report tax based on the retail value of the decorations—whether or not they represent at least 50 percent of the total retail value of the cake or bakery item.

■ Dietary supplements (health foods)

Sales tax generally applies to preparations in liquid, powdered, granular, tablet, capsule, lozenge and pill form sold as dietary supplements or adjuncts. If an item is sold in one of these specified forms, the following methods may be used to determine its taxability:

- If an item is described on its label or package as a food supplement, food adjunct, dietary supplement, or dietary adjunct, its sale would be subject to the sales tax.
- If an item is prescribed or designed to remedy specific dietary deficiencies or to increase or decrease generally those areas of human nutrition dealing with vitamins, proteins, minerals or calories, its sale would be subject to the sales tax.
- If an item is in one of the specified forms, it may be taxable if it is generally recognized as a dietary supplement, even though it is not described as such on its package and does not emphasize its vitamin, protein, mineral or calorie content. Examples include cod liver oil, wheat germ oil, and amino acid products.

■ Herbal products

Sales of herbal products, including teas and tea capsules, are subject to tax if

- Medicinal claims are made on the label or packaging, or in catalogs, brochures, or other information distributed with the products, or
- The products are labeled, packaged, or otherwise marketed as food supplements or adjuncts.

If an herbal product is not marketed or sold as described above, it is considered an exempt food product.

To illustrate, if an herbal product is marketed with general claims about making a person “feel better,” such a statement is not considered to be a medicinal claim. However, when herbal products claim to have general healing properties or to cure or alleviate specific ailments, such as Gypsy

Cold Care Tea and Breathe Easy Tea, they are considered nonprescription over-the-counter medicines, and their sale is subject to tax.

■ Hot prepared food products

Sales of hot prepared food products are subject to sales tax regardless of whether sold for consumption on the premises or sold to go.

A food product is considered a hot prepared food product if it is heated to a temperature above room temperature. Hot food is considered a hot prepared food product even if it has cooled by the time of sale since it was intended to be sold as a hot food.

Examples of hot prepared food products include hot pizza, hot barbecued chicken, hot spareribs, hot popcorn, and hot nuts (if you sell nuts from an enclosed display case which is heated through the use of an ordinary light globe, the sales are sales of hot food products and are subject to sales tax). Hot bouillon, consommé, and soup are also considered hot prepared food products and their sale is subject to tax. However, tax does not apply to the sale of hot bakery items, hot coffee, and other hot beverages if they are sold individually and to go.

Hot prepared food products also include a combination of hot and cold food items where a single price has been established for the combination. Examples include a combination of cole slaw, rolls, and hot chicken sold for a single price; and a doughnut and coffee sold for a single price.

■ To-go sales of meal packages that do not include hot items

If you sell a combination meal to go that includes cold food and a carbonated beverage, the portion of the selling price that represents the carbonated beverage is subject to tax. If the combo package includes cold food and a beverage other than a carbonated beverage, the sale of the package is not taxable.

Example. You sell a combination of a cold sandwich, chips, and iced tea for a single price to go—the sale is not taxable. You sell the same package with a carbonated soda—the portion of the selling price representing the charge for the soda is taxable.

■ Food service operations

Food sold for consumption at tables, chairs, etc., that you provide

If your store has a snack bar, soda fountain, cafeteria or a similar operation, you must report sales tax for sales of sandwiches, ice cream, and other foods if those foods are sold in a form for consumption at tables, chairs, or counters

or from trays, glasses, dishes or other tableware which you provide. For example, if you provide either a stand-up or sit-down counter in the delicatessen section, tax applies to food sold for consumption at the counter.

To go sales

In general, sales of cold food to go are not subject to tax (see exception for cold meal packages on page 5). If you claim an exemption from tax for cold food sold to go, you must show that no facilities are provided where the food can be consumed immediately. If facilities are provided, you must segregate your receipts of the nontaxable sales from the taxable “for here” sales. Your “receipts” could include tapes from a separate cash register key, copies of sales slips, or some similar record that can be verified by audit.

Notes:

- To-go sales of cold food can be taxable if more than 80 percent of your store’s sales are taxable dine-in or hot food sales.
- The information in this publication is intended for grocery stores. Delis and other businesses that sell groceries as a sideline should see publication 22, *Tax Tips for the Dining and Beverage Industry*.

Catering

You are considered a caterer for tax purposes if you serve meals, food, and drinks on the premises of your customers. If you make sales as a caterer, you should call our Information Center at 800-400-7115 and request publication 22, *Tax Tips for the Dining and Beverage Industry*, which includes a chapter on caterers.

Note: If you merely deliver food—that is, you do not use your employees or your own dishes, flatware, and so forth, to serve food, you are considered a food seller rather than a caterer. As a food seller, tax applies to your sales as described in this publication.)

Miscellaneous charges and transactions

The following information applies to a variety of sales and charges that occur at grocery stores. If you need additional information, please call our Information Center, 800-400-7115.

■ California Redemption Value (recycling fee)

Tax may or may not apply to your California Redemption Value (CRV) charges for nonrefillable containers. If sales tax applies to the sale of the beverage, the CRV charge is taxable. If sales tax does not apply to the sale of the beverage, the CRV charge is not taxable.

If sales tax does apply, the amount due is based on the amount received for the beverage and container *and* the amount charged for the CRV. (*Note:* If you give the beverage away and charge only the CRV fee, tax still applies to the CRV if the sale of the beverage would have been taxable.)

Examples of beverage sales subject to tax:

- Beer and other malt beverages
- Carbonated mineral and soda waters
- Carbonated soft drinks in liquid form
- Wine coolers and other alcoholic beverage coolers

Examples of beverage sales not subject to tax:

- Noncarbonated, 100 percent natural fruit juice
- Noncarbonated, noneffervescent bottled water

Note: The CRV program is administered by the California Department of Conservation, Division of Recycling. If you have questions regarding the fee or how to apply it, please contact that department. See the State Government pages of your telephone directory or go online to www.consrv.ca.gov/dor/index.htm.

■ Cigarette rebates

If you buy cigarettes through a cigarette distributor or vendor and receive a “buy-down rebate” from the manufacturer or other third party in exchange for reducing the selling price of your cigarettes, you are liable for tax on the rebate amount received. This is true whether the rebate is paid to you or to your distributor on your behalf. Likewise, tax applies whether or not you are required to redeem a coupon, sticker, or other indicia.

The tax amount due is based on your “gross receipts” for the sale — that is, the rebate amount and the amount paid by your customer. For example, assume you normally sell a package of cigarettes for \$5.00, but under a buy-down rebate plan, agree to sell the package for \$4.50 and receive \$0.50 from the manufacturer. Tax is due based on the \$5.00 you receive for the sale.

It should be noted that rebates received under a buy-down program are different from purchase discounts or credits independently offered by cigarette vendors in exchange for reducing the selling price for cigarettes. Such discounts and credits do not involve a rebate payment from the manufacturer or other third party and are not subject to tax.

Note: As of June 30, 2004, sellers of cigarettes and tobacco products at retail must have a separate California Cigarette and Tobacco Products Retailer’s

License for each retail location. This is true even if you have a seller's permit or other permits or licenses issued by the Board. For more information, see publication 78, available at our website.

■ Coupon redemption

There are many types of coupon redemption plans used by grocers today. However, they generally fall into two categories: coupons sent out or published by individual grocers and coupons sent out or published by manufacturers. These categories are discussed below.

Note: Tax does not apply to coupons that are redeemed for nontaxable food products.

Retailers' coupons

If you publish or send out coupons that are redeemable for merchandise at your store and if you are not reimbursed in any manner by a manufacturer, the face value of the coupon is a cash discount. Consequently, tax applies to the selling price after the discount.

Cash discounts are deductible from reported taxable sales if the full amount of the sale, without deduction for the discount, is included in your reported total sales. Of course, if a manufacturer reimburses you under this plan based on coupons redeemed, the amount of the reimbursement becomes part of your gross receipts from the sale of the product and not a deductible item.

Manufacturers' coupons

When a manufacturer publishes or sends out coupons stating an amount a product's selling price will be reduced, the amount you receive from the manufacturer for redemption of these coupons, excluding any handling allowance, represents a part of your gross receipts from the sale of the product, and is not a deductible item. Tax applies to the total gross receipts from the sale of taxable merchandise even though part of the sales price is paid by the customer and part is paid by the manufacturer.

The amount you receive from the manufacturer for the handling charge is not a part of your gross receipts. Many stores, however, use coupon redemption centers that make a charge for their services. If the service charge made by the coupon redemption center is greater than the handling charge permitted by the manufacturer, the excess charge may not be deducted from your gross receipts.

Since the amount of a manufacturer's redemption is usually the face value of the coupon, no adjustment to your reported sales is necessary if your recorded sale of the product was not reduced by the face value of the coupon.

If, however, your recorded sales amount has been reduced by the amount of the coupon, then the redemption received must be included in your reported sales.

Double-discount coupons

When a double-discount coupon is redeemed—consisting of a combined manufacturer’s coupon and the retailer’s own store discount coupon—the sales tax must be computed on the regular selling price of the taxable merchandise after deducting only the cash value or face value of the retailer’s own discount coupon.

Grocery store discount club cards

If you offer price discounts to customers through the use of “discount club cards,” the discount amount is not subject to tax. For tax reporting purposes, they are treated the same as cash discounts. Some stores also offer “club rewards”—such as discount coupons or “reward bucks”—based on a customer’s purchases during a particular time period. These “reward” discounts are also not taxable because they are considered retailer cash discounts.

■ Federal food stamps

Any tangible personal property sold in exchange for federal food stamp coupons is exempt from sales and use tax. This includes sales that would otherwise be taxable. For example, sales of carbonated beverages are generally taxable, but if they are paid for with federal food stamps, their sale is exempt.

If you make sales in exchange for food stamps, you must account for the sales of normally taxable items purchased with food stamps in order to properly report your sales and use tax liability.

Rather than separately accounting for those sales, you can use one of the following two approved methods for computing the allowable deduction for redeemed food stamp coupons:

Method 1. You may take a deduction on your sales and use tax return of two percent of the total amount of food stamp coupons redeemed in the period for which the return is filed.

Method 2. You may take a deduction that is greater than two percent if the calculation used in Method 2 results in a higher percentage.

The example on the following page illustrates how to calculate the percentage under this method.

Example

Assume the following total purchases for the period of your tax return:

Items that are normally taxable and may be purchased with food stamps	\$5,000 (a)
Exempt food products	\$130,000 (b)
Total	\$135,000 (c)

The allowable percentage to be applied to your total food stamp coupons redeemed is computed as follows:

$$(a) \$5,000 \div (c) \$135,000 = 3.7\%$$

Note: Customers may not use food stamps to buy items such as alcoholic beverages, tobacco products, pet food, soaps, paper products, vitamins, food that will be eaten in the store, or hot foods. If you are using this method, make sure that these items are not included in your total for "Items that are normally taxable and may be purchased with food stamps."

■ Film processing

Tax generally applies to all charges involved in processing film, including charges for

- Enlarging photos
- Placing photographic images on a CD, DVD, or floppy disk
- Printing photos from a digital storage medium

Tax generally also applies to charges for coloring and tinting new pictures. However, *itemized* charges for developing negatives from *your customers'* exposed film are generally not taxable. This is to be distinguished from charges for developing film by the reverse process method, which is subject to tax (the reverse process method consists of developing the film to a negative and reversing it into a positive, usually in the form of a slide or a home movie film.)

■ Lottery

Lottery receipts are not part of a retailer's gross receipts for tax purposes and should not be included on your sales and use tax return. Appropriate recordkeeping procedures should be established to segregate lottery receipts from sales. If you do not maintain adequate documentation of exempt lottery receipts, such sales could be confused with taxable sales.

■ Newspapers and periodicals

Sales of newspapers and periodicals are taxable, except for periodicals sold by subscription. Retailers who sell newspapers and periodicals in their stores should include these items with their reported taxable sales. Also taxable are sales of such items as catalogs, maps, and books.

■ Point-of-sale fees (fees for use of debit cards)

Tax does not apply to separately stated charges representing fees for using a debit card. Such fees are related to bank fees and are not considered compensation for a sale. Accordingly, you should not charge your customers an amount for sales tax on the fee.

■ Prepaid telephone debit cards

In general, sales of prepaid telephone debit cards are not subject to tax (see exception below). You are considered to be selling a future telephone service rather than selling tangible personal property.

Exception. If you sell a prepaid telephone card for its value as a collectible item rather than for future telephone service, the sale is subject to tax. For example, if you sell an expired card with a picture of a famous person or “classic” automobile, you are selling a collectible item, and the sale is subject to tax.

■ Rentals

Video tapes and equipment

Rentals of videotapes or DVDs for private noncommercial use are subject to tax. Tax applies to such rentals even if you paid sales tax reimbursement to your vendor or reported use tax on the purchase price of the tape or disc.

If you rent video equipment and videos/DVDs for a lump-sum rental charge, tax will apply to the entire charge or to a portion. If the video equipment was acquired tax-paid, there will be no tax on the portion of the charge attributable to the equipment. Taxable rental receipts will be measured by the ratio of the fair rental value of the videos/DVDs and equipment as applied to the lump-sum rental charge. If the video equipment was acquired without tax, the entire rental charge for the video equipment and the videos/DVDs is subject to tax.

Carpet cleaners

Your rental receipts may not be taxable or you may be required to report and pay tax on all or a portion of the receipts. It will depend on whether you paid sales tax reimbursement or use tax on your purchase of the carpet cleaning equipment, as described on the next page.

You did not pay tax on the carpet cleaning equipment:

- You must report and pay tax on all rental receipts, including charges for soaps and cleansers.

*You paid tax to your supplier or you reported use tax on your tax return**

- If you charge your customer a lump-sum amount for the rental, including equipment, soaps, and cleansers, you are not required to report and pay tax. However, you are considered the consumer of the soaps and cleansers and are liable for tax on your purchase of those items.
- If you charge a separate amount for the equipment and a separate amount for the soaps and cleansers, you are not liable for tax on the rental receipts for the equipment but are liable for tax on your receipts for the soaps and cleansers. Under this example, you can purchase the soaps and cleansers with a resale certificate.

* If you report use tax on your return, your purchase must be reported by the due date for the reporting period during which you first place the equipment in rental service.

■ Sales of capital assets

Tax applies to sales of capital assets used in your business—such as show-cases, gondolas, and cash registers. This holds true whether the assets are sold intermittently or are included with the sale of your business.

■ Self-consumed merchandise

Taxable merchandise that you purchase without tax for resale and divert to some other use is subject to use tax measured by its purchase price. Examples of such use include cigarettes, soap, and other taxable items taken home by an owner; given to friends, associates or employees; or donated to certain organizations (see next page). The cost of such merchandise should be reported on Line 2 of your tax return.

Paper bags and other wrapping and packaging supplies used to wrap merchandise you sell may be purchased “for resale” without payment of tax. But purchases of all other supplies, such as price tags, and purchases of store equipment are taxable. Normally, these items are purchased from local suppliers who charge sales tax reimbursement and report the tax. If equipment or supplies are purchased from out-of-state with no tax added, the purchase should be reported on Line 2 of your tax return, “Purchases Subject to Use Tax.”

Note—donations to organizations: You are not required to report use tax if you donate property from your resale inventory to a *qualified* organization, as defined in Regulation 1669, *Demonstration, Display, and Use of Property Held for Resale—General*. Donations to organizations that do not qualify under this regulation are subject to tax. To obtain a copy of Regulation 1669, please see page 26.

■ Vending machines

Commissions received from vending machine operators who have placed vending machines on your premises are not subject to tax.

Some grocers, however, sell their own merchandise through vending machines. Regulation 1574, *Vending Machines*, and publication 118, *Selling Food in Vending Machines*, explain the application of tax to sales through vending machines. To obtain copies, please see page 26.

2. Reporting Tax: Special Considerations for Grocery Stores

The information in this chapter is designed to help you compute some of the figures needed for your sales and use tax return. If you need additional information about completing a return, please refer to the return instructions that accompany your tax return or go to www.boe.ca.gov and download a copy of publication 73, Your California Seller's Permit. You can also call 800-400-7115 for assistance.

Total sales

Total sales entered on your tax return should include your gross receipts from all sales made during the period covered by the return. Gross receipts include sales of exempt merchandise as well as taxable merchandise. They also include charge sales and credit card sales.

Credit card sales should be reported as if no credit cards were involved. Your sales should not be reduced by the amount of any service charges made by a credit card organization. Since there was no reduction in the amount of the sale to your customers, no deduction is allowable.

Methods for computing exempt food sales and taxable sales

In preparing tax returns, you may use any method of determining the amount of your sales of exempt food items and taxable items so long as the method accurately discloses the correct amount of tax due. Regardless of the method used, you must be prepared to demonstrate, by records which can be verified by audit, that the method used accurately discloses the correct amount of tax due.

This chapter includes descriptions of the following methods:

- Purchase-ratio method (grocer's formula), pages 15-18
- Modified purchase-ratio method, page 18
- Cost-plus-markup method—taxable merchandise, pages 19-21
- Retail inventory method, page 22
- Electronic scanning systems, page 22
- Sales tax ring-up, page 23
- Taxable sale ring-up, page 23
- Estimates, page 23

The above methods are discussed on the following pages.

■ Purchase-ratio method (grocer's formula)

Under this method, you calculate your exempt food sales by using a formula that compares your *purchases* of food products and all grocery items. The formula, which adjusts for sales tax reimbursements, provides a percentage figure that is applied to total grocery sales in order to determine exempt food sales. The example shown below illustrates the use of the purchase-ratio method, and shows how nongrocery taxable purchases and sales are included in the calculations.

If you use this method, you must accurately segregate your purchases into the following categories: exempt food products, taxable grocery items, and nongrocery taxable items.

See pages 16 through 18 for more information about particular line entries.

Purchase-ratio method example

The following example shows how nongrocery taxable purchases and sales are included in the calculations.

1. Taxable grocery purchases	\$40,000
2. Add sales tax adjustment ($7.25\% \times \text{Item 1}$)	+ 2,900
3. Adjusted taxable grocery purchases (Item 1 + Item 2)	42,900
4. Exempt food products purchases	+ 130,000
5. Total grocery purchases including sales tax (Item 3 + Item 4)	<u>172,900</u>
6. Exempt food products ratio (Item 4 \div by Item 5 = 75.19%)	
7. Total sales including sales tax	254,088
8. Nongrocery taxable sales including sales tax (if such sales are not accurately segregated, mark up nongrocery taxable cost of goods sold to compute sales and add $7.25\% \times \text{sales tax}$ to total)**	- 31,500
9. Grocery sales including sales tax (Item 7 - Item 8)	<u>222,588</u>
10. Exempt food products sales (Item 6 \times Item 9)	- 167,364
11. Sales of taxable items including sales tax (Item 7 - Item 10)	<u>86,724</u>
12. Less taxable items purchased with food stamps (2% of total food stamps redeemed for period, e.g., $2\% \times \$100,000$)	- 2,000
13. Taxable measure including sales tax (Item 11 - Item 12)	<u>84,724</u>
14. Sales tax included ($.0725/1.0725 \times \text{Item 13}$)	- 5,727
15. Measure of tax (Item 13 - Item 14)	<u>78,997</u>
16. Sales tax payable ($7.25\% \times \text{Item 15}$)	5,727

* Use the applicable tax rate. We have used a tax rate of 7.25% for illustration purposes.

** Adjust for shrinkage if applicable—not to exceed 3 percent except as specified in Regulation 1602.5. Adjustment should also be made for significant inventory fluctuations.

If you have any questions regarding the purchase-ratio method, please call a nearby Board office.

You may also request a copy of Regulation 1602.5, Reporting Methods for Grocers.

**Tax Tips for
Grocery Stores**

September 2005

Page 15

Line 1—Taxable grocery purchases

a. The following is a partial list of purchases that should be included in “taxable grocery purchases.”

- Beer purchases
- Wine purchases
- Cigarette purchases
- Carbonated beverage purchases
- California recycling value (CRV) fees on beer, wine coolers, and carbonated beverages
- All other taxable grocery purchases (see Appendix A, page 30, for an expanded list of taxable grocery items)

b. Do not include the following as part of taxable grocery purchases:

- Nongrocery taxable purchases
(see Appendix B, page 31, for an expanded list)
- California recycling (CRV) fees on nontaxable beverages
- Hot prepared food ingredients
- Distilled spirits purchases
- Paper and plastic bags used as containers for items sold by grocers
- Snack bar purchases
- Restaurant purchases
- Gasoline purchases
- Farm feed purchases
- Farm fertilizer purchases
- Vending machine dispensed purchases
- Processing costs*
- Transportation costs*
- Warehousing costs*
- Manufacturing costs*

* If these operations are self-performed, the costs must be excluded from grocery purchases for purchase-ratio purposes; however, if you use a modified purchase-ratio method (see page 18), these costs may be included among grocery purchases, subject to Board approval.

c. Do not include exempt food products in “taxable grocery purchases.” See the discussion of Line 4 below for more information on exempt food products.

d. If you have received a volume rebate, promotional allowance, or a discount for your purchases, you must ensure that the purchase price you use reflects the reduced cost. See below, “Lines 1 and 4—Adjustments for Allowances and Discounts.”

Line 4—Exempt food product purchases

a. The following is a partial list of exempt food products.

- Meat purchases (do not adjust for meat scraps)
- Produce purchases
- Deli purchases
- Bakery ingredient purchases
- All other exempt food product purchases

b. If you have received a volume rebate, promotional allowance, or a discount for your purchases, you must ensure that the purchase price you use reflects the reduced cost. See below, “Lines 1 and 4—Adjustments for Allowances and Discounts.”

Lines 1 and 4—Adjustments for allowances and discounts

Cash discounts, volume rebates, quantity discounts, and promotional allowances represent reductions of cost and should be used to reduce the purchase price of “taxable grocery purchases” and “exempt food products,” as applicable, for ratio purposes. These items are defined below:

Cash Discount. As used for this reporting method, cash discount means a reduction from invoice price allowed the grocer for prompt payment.

Volume Rebate, Quantity Discount. As used for this reporting method, volume rebate or quantity discount means an allowance or reduction of the price for volume purchases based on the number of units purchased or sold. Such rebates or discounts normally are obtained without any specific contractual obligation upon the part of the grocer to advertise or otherwise promote sales of the products purchased. The term does *not* include patronage dividends distributed to members by nonprofit cooperatives pursuant to Section 12805 of the Corporations Code, or rebates that constitute a distribution of profits to members or stockholders.

Promotional Allowance. As used for this reporting method, the term “promotional allowance” means an allowance in the nature of a reduction of the price to the grocer, based on the number of units sold or purchased during a promotional period. The allowance is directly related to units sold or purchased although some additional promotional expense may be incurred by the grocer. Normally, the product would be featured in the grocer’s advertising, although the grocer may or may not be contractually obligated to do so. The retail price of the product may or may not be lowered during a promotional period.

Promotional allowances do not include display or other merchandising plan allowances or payments that are based on agreements to provide shelf space for a price not related to volume of purchases, or cooperative advertising allowances that are based on a national line rate for advertising and are not directly related to volume of purchases and sales. Cooperative advertising allowances are intended to reimburse grocers for a portion of their advertising costs for a particular product or products.

Line 8—Nongrocery taxable sales

Sales and purchases of nongrocery taxable items such as distilled spirits, drug sundries, and hardware must be accounted for in the ratio computation. If such sales are not accurately segregated in your records, then nongrocery taxable cost of goods sold should be marked up by applicable markup rates, plus sales tax, to determine such sales.

An adjustment for shrinkage may be taken into consideration in the sales computation, if applicable. This adjustment may not exceed 3 percent of the cost of nongrocery taxable items when the purchase-ratio method is used, except as specified in Section (d) of Regulation 1602.5.

■ **Modified purchase-ratio method**

If you do not follow the procedure outlined on pages 15-18, but report on a different purchase-ratio basis, you are using a modified version of the purchase-ratio method. For example, if you include self-performed processing, manufacturing, warehousing or transportation costs in the purchase-ratio formula, you are using a modified version.

If you use a modified version, you must establish that the modified version does not result in an overstatement of the food products exemption. The adequacy of the modified method may be demonstrated by extending taxable purchases, adjusted for inventories, to retail for a representative period or computing taxable sales by marking up taxable purchases, adjusted for inventories, for a representative period. Grocers must retain adequate records, that may be verified by audit, documenting the modified purchase-ratio method used.

If you anticipate using a modified purchase-ratio reporting method, you are urged to notify the Board of your intentions and to submit your proposed method to the nearest Board office for review prior to use. If you submit a proposed modified purchase-ratio reporting method that meets Board approval, you will be furnished a written notice indicating the time period within which such modified methods are authorized for use.

■ Cost-plus-markup method—taxable merchandise

This is basically a method whereby applicable markups are added to your cost of taxable merchandise, adjusted for inventories, to determine taxable sales for the reporting period. Adjustments are made for markons, markdowns, quantity sales and case sales, as applicable. A shrinkage adjustment of up to one percent of the cost of taxable merchandise is also allowable if losses are incurred.

Markup factor percentages (cost plus the markup) must be determined by conducting a shelf test of representative purchases covering a minimum purchasing cycle of one month within a three year period, segregated by commodity groupings (for example, beer, wine, paper products, pet foods, and so forth). Commodity markup factor percentages are applied to cost of sales of the respective commodities for the reporting period to determine taxable sales for each commodity.

As an alternative procedure, the overall average markup factor for all taxable commodity groupings may be used to determine total taxable sales for the reporting period. This factor is applied to the overall cost of taxable sales for the reporting period. It should be noted that shelf tests (to determine commodity markup factors) use purchases covering a complete purchasing cycle, typically one month. The markup factors determined from the shelf tests are then applied to respective commodity costs in a one-year base period to compute the overall average markup factor.

See the following pages for an example of a cost-plus-markup calculation.

Cost-plus-markup example

Computation of Taxable Sales to be Reported (3rd quarter 20XX)

Recorded cost of taxable sales	\$403,815
Less 1% allowance for shrinkage	<u>– 4,038</u>
Adjusted cost of taxable sales	<u>\$399,777</u>
Overall taxable markup factor (31.59% + 100%) ¹	x 131.59%
Computed taxable sales (131.59% x \$399,777)	\$526,067
Sales tax payable (7.25% x \$526,067) ²	<u>\$38,140</u>

¹ See next page for an illustration of how the markup calculation was done.

² Use the applicable tax rate. A tax rate of 7.25% was used for illustration purposes.

Computation of Overall Taxable Markup (test year: 20XX)

	A	B	C
	Recorded Cost of Sales	Markup Factor ¹ (MU+100%)	Computed Taxable Sales (AxB=C)
Commodity			
Grocery Taxables			
Beer	\$105,078	132.49% ²	\$139,218
Wine	32,438	147.19%	47,745
Carbonated beverages	223,815	135.50%	303,269
Tobacco and related products	100,781	112.63%	113,510
Paper products	131,931	127.55% ²	168,278
Pet food	142,316	123.87%	176,287
Soap and detergents	125,712	110.95%	139,477
Laundry supplies	26,101	123.87% ²	32,331
Household cleaners, waxes, and insecticides	23,087	127.05%	29,332
Brooms, mops, brushes, and sponges	7,522	139.26%	10,475
Outdoor living needs (charcoal briquets, starter fluid, etc.)	<u>6,519</u>	124.40%	<u>8,110</u>
Total Grocery Taxables	<u>\$925,300</u>		<u>\$1,168,032</u>
Total Nongrocery Taxables	<u>+ 358,626</u>	145.40%	<u>+ 521,442</u>
Total Taxables	<u>\$1,283,926</u>		<u>\$1,689,474</u>

Cost of Computed Taxable Sales	- \$1,283,926
Gross Profit	<u>\$ 405,548</u>

Overall Markup (\$405,548 ÷ \$1,283,926) 31.59%

¹ All markups have been adjusted for any markons or markdowns and quantity price adjustments (for example, cigarettes sold by the carton).

² The shelf test used to compute the markup on this commodity is illustrated on the following page.

The example on this page and the following page shows the computation of taxable sales using an overall average markup factor for taxable merchandise.

If you have any questions regarding this method, please call a nearby Board of Equalization office. You may also request a copy of Regulation 1602.5, Reporting Methods for Grocers.

Tax Tips for
Grocery Stores

September 2005

Page 20

Shelf Test Period: April 20XX

Shelf Test on Beer

Date	Invoice Number	Vendor	Cost	Retail Ex-tax
4-2-XX	629452	Lane Distributing Co.	\$559.64	\$737.20
4-2-XX	39819	National Brewers	222.72	297.20
4-4-XX	45293B	City Distributors	553.78	737.52
4-7-XX	098757	Smythe Brewing Co.	475.66	620.11
4-7-XX	75923	Bunkers Brewers Inc.	+ 173.10	+ 237.79
<i>Totals</i>			<u>\$1,984.90</u>	<u>\$2,629.82</u>
<i>Cost</i>				- \$1,984.90
<i>Gross Profit</i>				<u>\$ 644.92</u>
<i>Markup (\$644.92 ÷ \$1,984.90)</i>				32.49%

Shelf Test on Paper Products

Date	Invoice Number	Vendor	General Description	Cost	Retail Ex-tax
4-3-XX	123276	Monsanto-Pacific, Inc.	Paper towels	\$962.59	\$1,152.80
4-3-XX	B30031	Value-Line Products	Paper plates, napkins	514.29	696.50
4-5-XX	191156	Lunch-A-Bunch	Bags	396.31	504.35
4-8-XX	42445A	Fawcett and Son	Tissues	1,204.14	1,584.45
4-8-XX	19416	M. I. Green Paper Co.	Aluminum foil	+ 481.52	+ 601.14
<i>Totals</i>				<u>\$3,558.85</u>	<u>\$4,539.24</u>
<i>Cost</i>					- \$3,558.85
<i>Gross Profit</i>					<u>\$980.39</u>
<i>Markup (\$980.39 ÷ \$3,558.85)</i>					27.55%

Shelf Test on Laundry Supplies

Date	Invoice Number	Vendor	General Description	Cost	Retail Ex-tax
4-3-XX	314652	Silver Seal Products	Bleach	\$192.23	\$224.96
4-4-XX	B92845	Lewis and Final	Ammonia	262.01	330.29
4-7-XX	1-22958	Columbia Laundry Prod.	Starch	268.92	324.42
4-8-XX	496372	Arnile and Co.	Water Softener	180.47	234.87
4-8-XX	A19485	Goldfard and Hubbard	Cleaners	+ 190.52	+ 240.75
<i>Totals</i>				<u>\$1,094.15</u>	<u>\$1,355.29</u>
<i>Cost</i>					- \$1,094.15
<i>Gross Profit</i>					<u>\$ 261.14</u>
<i>Markup (\$261.14 ÷ \$1,094.15)</i>					23.87%

Tax Tips for
Grocery Stores

September 2005

Page 21

■ Retail inventory method

This method is generally appropriate for use only by the larger grocers. It is most feasible for use by grocers who have suitable automatic data processing equipment capabilities.

It is basically a method whereby control records for inventories and purchases are maintained at retail values. As purchase invoices are received, the merchandise is segregated according to exempt food products and taxable items and priced and recorded at the retail value. The total retail amounts for the reporting period, adjusted for inventories at retail and segregated according to exempt food products and taxable items, represent anticipated exempt and taxable sales for the reporting period. Adjustments are made for markons, markdowns, quantity sales and case sales, as applicable. A shrinkage adjustment of up to 1 percent of taxable items is also allowable if losses are incurred.

Additional information on the retail inventory method is included in Regulation 1602.5. See page 26 for information on how to obtain a copy.

■ Use of electronic scanning systems

You can also use electronic scanning systems to separate taxable sales from nontaxable sales. These systems record and compile taxable and nontaxable sales, sales tax, and related data from information imprinted on a Universal Product Code.

If you plan to use electronic scanning systems for sales tax reporting purposes, you must first notify your local Board of Equalization office of your intention. They will ask you to submit a general outline of the proposed reporting method for review and approval (you must obtain approval from the Board office before you can use this method). You must also

- Ensure that the proper controls are maintained for monitoring and verifying the accuracy of the scanning results and tax returns. Your Board office will be able to provide you with information on the type of documentation that should be developed and maintained. You are required to keep all records relating to sales and purchases for four years from the date of the sale or purchase.
- Agree to segregate a representative sample of taxable and nontaxable merchandise purchases should it become necessary for future audit purposes.

■ Other methods

Sales tax ring-up

Sales tax ring-ups at the cash register are converted to the equivalent taxable measure to determine taxable sales for the reporting period. Use of this method is generally not satisfactory because of several factors. For example:

- Checkout clerks may not be well informed on the taxability of all items sold.
- Checkout clerks often work under pressure, which can lead to errors in classifying items or errors in the amount of tax reimbursement added.
- It is sometimes trade practice to sell certain types of merchandise, such as cigarettes and tobacco, at a tax-included price.

Since this method is susceptible to many errors, it is not recommended for use as a reporting method.

Taxable sale ring-up

This is similar to the sales tax ring-up method, except that under this method the taxable sales amounts are recorded on a separate key of the cash register and compiled to determine taxable sales for the reporting period. As with the sales tax ring-up, this method is susceptible to many errors and is not recommended for use as a reporting method.

Estimates

The following methods for reporting tax liability based on estimates are not recommended:

- Estimates based on tax reported in a prior period
- Estimates based on a ratio of taxable sales to total sales in a prior period
- Estimates based on the application of unsubstantiated markups or based on other methods that have not been approved by the Board

■ Deductions

Deductions should be taken for the gross receipts from your sales of exempt merchandise. The usual exempt merchandise sold in grocery stores are *nontaxable sales of food products*. To support your deduction for exempt sales of food products, all purchases of food products should be segregated in your records from taxable items.

In claiming a deduction, be sure that it really is exempt and that you have included the amount in reported total sales. Be sure to retain documentation supporting the deduction.

■ Losses

Shrinkage (unaccounted-for losses)

When losses such as spoilage, breakage, pilferage, and so forth are incurred, grocers may, for reporting purposes, adjust up to 1 percent of the cost of taxable merchandise when using the retail inventory or markup method. An adjustment of up to 3 percent of the cost of your nongrocery taxable items may be taken when using the purchase-ratio method of reporting. See pages 15-18 for an explanation of this reporting method.

An adjustment for shrinkage is not allowed in all cases; its use is limited to reporting methods involving a markup or an extension of purchases to retail. For example, under the purchase-ratio method of reporting, an adjustment for shrinkage would not be in order if your sales of nongrocery taxable items are based on actual sales, rather than based on a markup or extension of nongrocery taxable purchases to retail, since shrinkage would already be reflected in recorded gross receipts.

Robbery, theft, shoplifting

Losses in excess of that allowed for shrinkage must be supported by some form of specific proof of loss. Proof may be in the form of a report from a private agency employed to track down losses, a police report, insurance claim, or other documentary evidence. As with shrinkage, deductions for robbery, theft, and shoplifting would not be appropriate if you report taxable sales based on actual sales.

Note: Robberies of cash are not deductible for sales tax purposes because tax is measured by sales. You still have the responsibility to pay tax on taxable sales in the usual manner despite a loss of the proceeds of sales.

Bad debts

If a check that you accepted as payment for merchandise is returned unpaid by the bank, is found to be uncollectible, and is charged off for income tax purposes, you can claim a bad debt deduction for the amount of the taxable items included in the original sale. If the original sale included both taxable and exempt items, you may determine the amount of the taxable items by applying the ratio of your total taxable sales for the reporting period to your total sales for the reporting period.

When a check is cashed for an amount in excess of the total sale, that excess portion over the sale amount is not deductible as a bad debt. In such situations, the amount of the sale should be noted on the check.

Frequently, the money for a bad debt or a bad check is later collected from a customer. If collection is made after a deduction has been claimed, the portion previously claimed as a deduction must be reported as additional taxable sales.

No deduction is allowable for expenses you may incur in attempting to collect the bad account, and no deduction is allowable for that portion of a debt recovered that is retained by or paid to a third party as compensation for collecting the account.

In the event the tax rate has changed since the time of the sale, the amount of the bad debt deduction must be adjusted to conform to the tax rate in effect at the time the deduction is taken.

3. For More Information

Website

For publications, forms, regulations, and much more: *www.boe.ca.gov*

Information Center

If you have a general tax question, please call our toll-free number and speak with a Customer Service Representative. Representatives are available weekdays from 8:00 a.m. to 5:00 p.m., except state holidays. Please call:

800-400-7115 TDD/TTY: 800-735-2929

Assistance is available in languages other than English.

Questions regarding your account

Please call the office that maintains your records. The name and telephone number of the appropriate office is printed on your tax returns. Field office telephone numbers are provided on the inside back cover.

Faxback service

Our faxback service, which allows you to order selected forms and publications, is available 24 hours a day. Call 800-400-7115 and choose the fax option. We'll fax your selection to you within 24 hours.

Publications and regulations

To obtain copies of forms, publications, and regulations, you may:

Use the Internet. Most regulations and publications are available on our website: *www.boe.ca.gov*

Call our Information Center. A Customer Service Representative will help you during working hours. If you know the name or number of the document you need, you can call outside working hours and leave a recorded message. Certain documents are also available on our faxback service, described above.

Selected regulations and publications that may interest you are listed below and on the next page. A complete listing of sales and use tax regulations and publications appears in publication 73, *Your California Seller's Permit*.

■ Regulations

You may find the following regulations helpful. For a complete listing of regulations for sales and use taxes, please go online to www.boe.ca.gov/sutax/staxregs.htm or call our Information Center, 800-400-7115.

- 1602 Food Products
- 1602.5 Reporting Methods for Grocers
- 1603 Taxable Sales of Food Products
- 1669 Demonstration, Display, and Use of Property Held for Resale—General
- 1698 Records
- 1700 Reimbursement for Sales Tax

■ Publications

You may find the following publications helpful. The letter V, K, C, S, or F following a publication indicates the pamphlet is available in Vietnamese, Korean, Chinese, Spanish, or Farsi.

- 17 Appeals Procedures
- 22 Tax Tips for the Dining and Beverage Industry (K,S)
- 24 Tax Tips for Liquor Stores
- 27 Tax Tips for Drug Stores
- 44 Tax Tips for District Taxes
- 51 Guide to Board of Equalization Services (C,K,S,V)
- 58-A How to Inspect and Correct Your Records
- 61 Sales and Use Taxes: Exemptions and Exclusions
- 68 Tax Tips for Photographers, Photo Finishers, and Film Processing Laboratories
- 70 The California Taxpayer's Bill of Rights (C,K,S,V)
- 73 Your California Seller's Permit (C,F,K,S,V)
- 74 Closing Out Your Seller's Permit (C,S)
- 75 Interest and Penalty Payments
- 76 Audits (F,K,S)
- 103 Sales for Resale (S)
- 110 California Use Tax Basics (S)
- 113 Coupons and Sales Tax (S)
- 116 Sales and Use Tax Records
- 118 Selling Food in Vending Machines (S)

For a complete listing of Board publications available online, go to www.boe.ca.gov/info/boelist.htm.

Written tax advice

For your protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, or interest charges that are due on a transaction if we determine that we gave you incorrect written advice regarding the transaction and that you reasonably relied on that advice in failing to pay the proper amount of tax. For this relief to apply, a request for advice must be in writing, identify the taxpayer to whom the advice applies, and fully describe the facts and circumstances of the transaction. Please send your request to the Board office that handles your account.

Written tax advice is specific to individual taxpayers. You cannot obtain tax relief by relying on a written opinion given to another business, even if your transactions are similar. In addition, tax relief is not available if you incorrectly apply tax based on advice we give you in person or over the telephone.

Other taxes and fees

You may need to be registered with the Board to report other taxes and fees besides sales and use taxes. For example, you may need to be registered to pay the environmental fee, or you may need to obtain a license from us to sell cigarettes and tobacco products (this license is in addition to a seller's permit). You can order or download publication 73, *Your California Seller's Permit*, to obtain a listing of other Board-administered taxes and fees. If you have a question regarding the new licensing requirement to sell cigarettes and tobacco products, call our Information Center at 800-400-7115.

Classes

Some of our local offices offer basic sales and use tax classes. If you're interested, call ahead to find out whether your local office conducts a class for beginning sellers.

Taxpayers' Rights Advocate

If you have been unable to resolve a disagreement with our agency, or if you would like to know more about your rights under the Sales and Use Tax Law, please contact the Taxpayers' Rights Advocate office:

Taxpayers' Rights Advocate Office, MIC:70
State Board of Equalization
P.O. Box 942879
Sacramento CA 94279-0070

Phone: 888-324-2798 (toll-free), or 916-324-2798
Fax: 916-323-3319

Purchases for resale—how to verify a seller's permit number

If a customer submits a resale certificate to you for a purchase, you may contact us to verify the seller's permit number used on the certificate.

- You may go online to *www.boe.ca.gov*. Look at the left sidebar and click on "Permit Verification" under "BOE Programs."
- You may call our toll-free automated verification service at any time. The telephone number is 888-225-5263. You will be asked to provide the seller's permit number you want to verify.

Field offices

City	Area Code	Number	City	Area Code	Number
Bakersfield	661	395-2880	San Francisco	415	356-6600
Culver City	310	342-1000	San Jose	408	277-1231
El Centro	760	352-3431	San Marcos	760	510-5850
Fresno	559	248-4219	Santa Ana	714	558-4059
Kearny Mesa	858	636-3191	Santa Rosa	707	576-2100
Laguna Hills	949	461-5711	Suisun City	707	428-2041
Long Beach	562	901-2483	Van Nuys	818	904-2300
Norwalk	562	466-1694	Ventura	805	677-2700
Oakland	510	622-4100	West Covina	626	480-7200
Rancho Mirage	760	346-8096	Offices for Out-of-State Accounts		
Redding	530	224-4729	Chicago, IL	312	201-5300
Riverside	951	680-6400	Houston, TX	281	531-3450
Sacramento	916	227-6700	New York, NY	212	697-4680
Salinas	831	443-3003	Sacramento, CA	916	227-6600
San Diego	619	525-4526			

4. Appendix: Classification of Products Sold by Grocers

The products listed in this chapter are divided into the following classifications:

A. Taxable Grocery Items

B. Nongrocery Taxable Items

If you have any questions regarding the taxability of a sale, please call our Information Center, 800-400-7115.

A. Examples of taxable grocery items

Aluminum foil	Furniture polish
Ammonia	Garbage bags
Antacid mints	Glass cleaner
Bags—lunch	Ice
Beer	Insect spray, poison, bombs
Bird seed	Kleenex
Bird treats (food)	Kotex, Tampax, Coets, Fems
Bleach—laundry	Light bulbs and fuses
Bottle brushes	Lighter fluid
Brooms	Lozenges (medicated)
Candles	Matches
Canning jars and lids	Mops, mop handles
Carbonated beverages	Moth protection—all kinds
Cat food	Muffin papers
Charcoal briquets, lighter fluid	Paper cups, plates, napkins, table covers
Cigarettes	Paper towels, drinking straws
Cigars	Pet food
Cleaners and polishes (household)	Plastic eating utensils
Clothes pins	Plastic film (such as Saran Wrap, etc.)
Coloring extracts	Pot scrubbers
Cough drops	Powder (cleaning)
Deodorizers (air fresheners)	Rolaids
Dietary supplements or adjuncts	Rust stain remover
Dishcloths	Salt for making ice cream
Drain cleaners (Drano, etc.)	Sandwich bags
Dye—clothes	Scouring pads
Facial tissues	Silver polish
Floor wax and applicators	Soap and detergent
Fly swatters	
Fuel—cooking, heating	

Examples of taxable grocery items (continued)

Sponges	Upholstery cleaner
Spray bottles (empty)	Water softener (laundry)
Starch—laundry	Water softener salt
Table covers—paper	Wax paper
Tile cleaner	Wax remover
Toilet tissue	Whisk brooms
Toothpicks	Wine

B. Examples of nongrocery taxable items

Accessories—auto	Glassware
Adhesive tape	Gloves
Ammunition	Hair dye
Antacid liquids	Hair styling products
Appliances—household, auto	Hardware
Auto cleaner, polish, waxes	Medicated cleansers
Baby oil	Medicine for pets
Batteries—auto, flashlight	Notebooks
Books	Nursery stock
Bubble bath	Pencils, pens & ink
Cameras	Pet supplies & equipment (not food)
Chinaware	Pots & pans
Cigarette lighters	Powder (face or body)
Clothing	Rawhide chew bones
Cosmetics	Razors
Deodorizers (body)	Razor blades
Diapers (cloth or disposable)	Rubber bands
Dishes	Pet litter
Distilled spirits	School supplies
Drug sundries	Scotch tape
Electrical supplies	Shaving cream & lotion
Farm & garden implements	Shampoo & rinse
Fertilizers	Shoe laces & polish
Film	Silverware
Firearms	Sporting goods
Flashlights	Stationery
Flower & garden seeds	Sunglasses
Flowers	Sun tan lotion and sunscreen
Fuel & lubricants (includes diesel fuel, grease, etc.)	Thread
Furniture	Tools
Garden tools & supplies	Toothpaste
	Toys

**SELLING
TOBACCO
TO MINORS IS
Illegal**

To report illegal sales, call
1-800-5-ASK-4-ID

What do you think of this publication?

We hope this newly revised tax tip publication will help you to better understand the Sales and Use Tax Law as it applies to your organization.

We would appreciate it if you could take a few minutes to give us your comments and suggestions so that we can improve future revisions. We'd also like to have some information that will help us make our publications program more useful to you. Please answer the questions below and on the reverse, remove the page, and return it to us. It is designed as a postage-paid self-mailer: you may fold the page as indicated and seal it with two pieces of tape.

Thank you for taking the time to respond to this survey.

Publication Comments and Suggestions

1. Does this publication help you apply the sales and use tax in your business operations?
2. Are there any sections that you find particularly helpful? (please note)
3. Are there any sections you find confusing? (please explain, if possible)
4. Are there any topics not addressed in this publication that you would like us to include?
5. Are there any sections that you feel are incomplete and what would you add?
6. Do you have any other comments or suggestions for improving this publication?

Name (optional) _____

Phone number (optional) _____

Date _____

Please answer questions on reverse

Tax Tips for
Grocery Stores

September 2005

Page 33

tape



State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0058



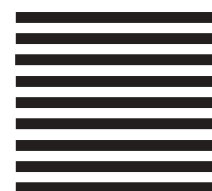
tape

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

BUSINESS REPLY MAIL

FIRST-CLASS MAIL PERMIT NO. 199 SACRAMENTO CA

POSTAGE WILL BE PAID BY ADDRESSEE



**PUBLICATIONS UNIT MIC:58
STATE BOARD OF EQUALIZATION
PO BOX 942879
SACRAMENTO CA 94299-9879**



fold here

remove page at perforation

tape

fold here and seal with tape or tabs where indicated

tape

Reader Survey Information (please check all boxes that apply)

What is the nature of your organization's work?

How long have you been operating?

- ☐ less than one year ☐ 1-5 years
☐ 6-10 years ☐ more than 10 years

Did you receive a copy of this pamphlet (or an earlier version) when you applied for or received your seller's permit?

- ☐ yes ☐ no ☐ not sure

How did you find out about this pamphlet?

- ☐ Board field office
☐ Board auditor
☐ Tax Information Bulletin
☐ Publications listing in a Board pamphlet
☐ Board website
☐ Other (please list) _____

Where did you obtain this pamphlet?

- ☐ Board field office
☐ Board auditor
☐ Board Information Center
☐ Board website
☐ Other (please list)

Do you use any other Board publications to help you apply or understand the California Sales and Use Tax Law? (please list)

